

Internal Revenue Service

Department of the Treasury

District  
Director

P.O. Box 2508  
Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

Date: AUG 08 1987

Dear Sir or Madam:

By our letter dated [REDACTED], we proposed to deny your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code of 1954. This proposal was based on our determination that your receipts from nonmembers for use of your facilities or participation in activities which you sponsor substantially exceed the 15 percent of gross receipts limitation.

You have agreed to this proposal by signing Form 6018, Consent to Proposed Adverse Action. Accordingly, this letter becomes our final determination.

Since you are not exempt, you must file all Federal tax returns required of you by the Internal Revenue Code.

This is a denial letter.

Sincerely yours,

[REDACTED]  
[REDACTED]  
District Director

7-30-87

7-30-87

8/3/87

Form **6018**  
(Rev. August 1983).

Department of the Treasury-Internal Revenue Service  
**Consent to Proposed Adverse Action**  
(All references are to the Internal Revenue Code)

Prepare In  
Duplicate

Case Number

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

**JUL 8 1987**

Name and Address of Organization

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

**NATURE OF ADVERSE ACTION**

☒ Denial of exemption

☐ Revocation of exemption, effective

☐ Modification of exempt status from section 501(c)( ) to 501(c)( ), effective

☐ Classification as a private foundation (section 509(a)), effective

☐ Classification as a non-operating foundation (section 4942(j)(3)), effective

☐ Classification as an organization described in section 509(a)( ), effective

☐ Classification as an organization described in section 170(b)(1)(A)( ), effective

INTERNAL REVENUE SERVICE  
CINCINNATI, OHIO

**JUL 27 1987**

**RECEIVED**  
**EP/EO DIVISION**

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization

Signature and Title

Date

Signature

Date

*Secy & Treasurer*

**7/25/87**

**Internal Revenue Service**

**Department of the Treasury**

District  
Director

P.O. Box 2508, Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

Date: JUL 8 1987

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(7) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

[REDACTED]

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

[REDACTED]  
District Director

Enclosures (3)

Enclosure I

[REDACTED]

The information submitted shows that you were formed as a non-profit corporation in the State of [REDACTED] on [REDACTED]. Article Three of your articles of incorporation states that your purpose is to organize and to promote the members' interest in Field Trials of the [REDACTED] hunting dog.

Your application states that you conduct one AKC licensed field trial annually for [REDACTED]. The maximum number of trials that ever would be conducted annually is two (2). The purpose of the field trials is to maintain and improve the hunting ability of the breed. Competing dogs can be awarded points for championships which would be registered on the dog's pedigree by the AKC.

The field trial has an entry fee, advertising in the program, a banquet, sale of shot birds and a drawing as sources of support. Expenses are incurred for dues, permits, birds, trophies, the banquet, mailings and related costs.

Nonmembers participate in the field trials and you also solicit advertisements from local businesses for your contest program.

On Schedule D of Form 1024, you show that [REDACTED]% of your income is from nonmembers. In a letter dated [REDACTED], you state that the income from members cannot be expected to meet the percentage requirements under section 501(c)(7). You give an example that the entry fee is \$[REDACTED] with [REDACTED] people participating. You have only [REDACTED] members.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Regulations states that the exemption provided by section 501(a) of the Code for an organization described in section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber or other products, is not

Enclosure I

organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under section 501(a) of the Code. Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption.

As previously noted, section 501(c)(7) of the Code requires substantially all of a social club's activities be social or recreational activities for members. However, Public Law 94-568, 1976-2 C.B. 596, provides that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15 percent of the total receipts.

Based on the information which you submitted, it is our opinion that you do not qualify for exemption under section 501(c)(7) of the Code because your receipts from nonmembers for use of your facilities or participation in activities which you sponsor substantially exceed the 15 percent of gross limitation.